



Tennessee Housingmarket

1st Quarter 2014

Business and Economic Research Center

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Supported by Tennessee Housing Development Agency

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Economic Overview

Most, but not all, indicators show that economic activity slowed in Tennessee during the first quarter. Nonfarm employment added just 8,000 jobs from the fourth quarter, fewer than the quarterly average for 2013 (Table 1). Nonfarm employment, based on a monthly survey of employers, is considered our most accurate measure of job growth. Employment in the goods-producing sectors, including construction, mining, and manufacturing, was unchanged, while the services-providing sectors added 9,000 jobs.

Over the year, nonfarm employment grew 1.5%, including both private sector and government employers. If we include just private sector employers, the growth rate is much improved, 2.1% over the year; the difference between the two growth rates is due to the fact that government

employment continues to shrink, down 7,800 over the year. Initial claims for unemployment insurance rose during the quarter, reflecting higher layoffs among employers in the state (Figure 1). Weekly average claims increased to 5,215 from 4,863 in the fourth quarter after seasonal adjustments. Some of this increase could be attributed to the unusually poor weather experienced during the first quarter.

The condition of the state's labor market appears to have improved considerably during the quarter. Total employment, estimated from the household survey, rose 31,000 during the quarter, resulting in a drop in unemployment of a nearly equal amount. The unemployment rate dropped to 6.9 percent, a full percentage point lower than the previous quarter.

Figure 1. Tennessee initial claims for unemployment insurance (quarterly averages of weekly data, seasonally adjusted)

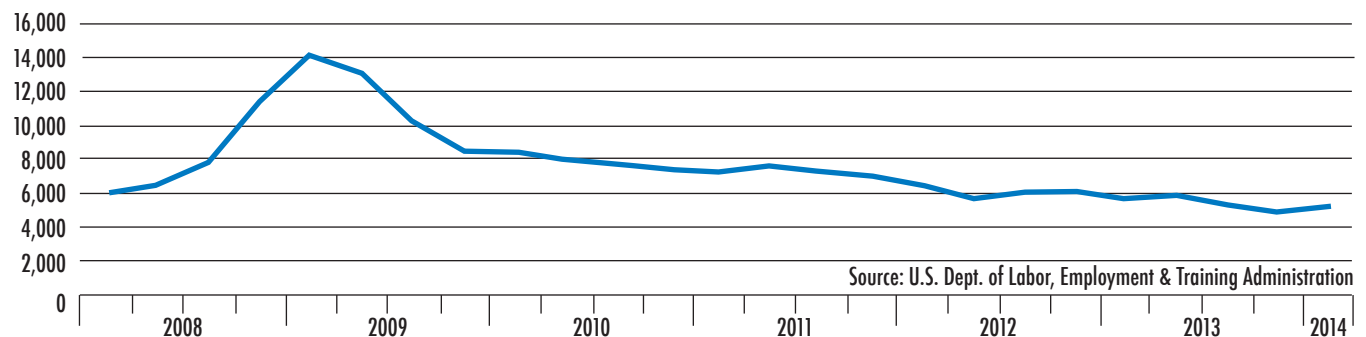


Table 1. Selected Tennessee employment indicators (thousands, seasonally adjusted)

	2013.1	2013.2	2013.3	2013.4	2014.1
Employment by industry (nonfarm)					
Total nonfarm	2,738	2,743	2,752	2,771	2,779
Goods-producing sectors	426	426	426	430	430
Manufacturing	318	318	319	322	320
Services-providing sectors	2,312	2,317	2,326	2,341	2,350
Labor force	3,100	3,085	3,060	3,037	3,038
Total employment	2,847	2,827	2,805	2,797	2,828
Unemployed	254	258	255	240	211
Unemployment rate	8.2%	8.4%	8.3%	7.9%	6.9%

Source: Bureau of Labor Statistics

Housing Construction

This quarter is marked by a large contrast between single-family home construction and multi-family construction. Single-family home construction declined in the first quarter, falling by 5.2% from the previous quarter after seasonal adjustments (Table 2). Activity appears to have peaked during the third quarter of 2013, as rising mortgage rates, higher home prices, and increased lumber costs have increased the cost of purchasing a new home (Figure 2). When we add very poor weather and little change in household income to the mix, perhaps it is not surprising

that single-family construction has dipped.

Not that housing construction in general is suffering. Construction of multi-family units is booming, not just in Tennessee but also in many parts of the nation. Multi-family unit construction doubled from the previous quarter in Tennessee and more than doubled from last year. In fact, the current level of multi-family construction activity in the state is the highest in at least 10 years.

Figure 2. Tennessee single-family home permits (thousand units, seasonally adjusted annual rate)

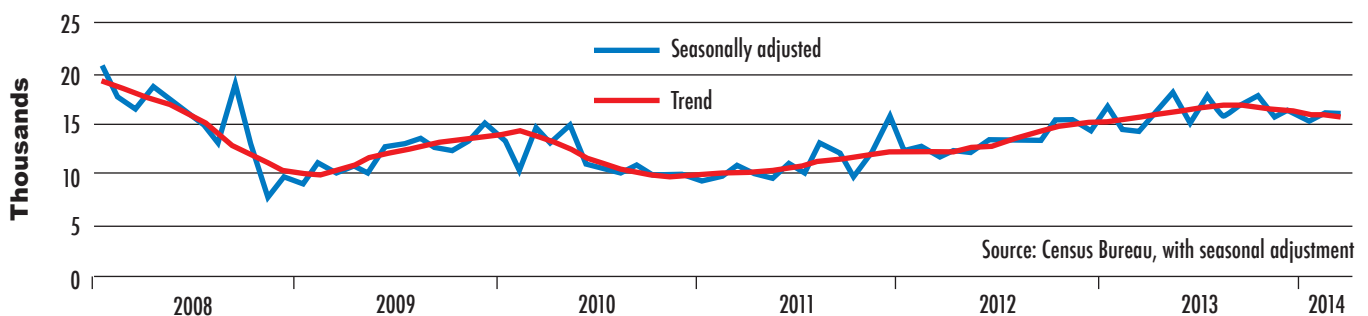


Table 2. Permits issued for privately owned new housing (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2011.1	10.2	216.7	399.3	2.2	81.0	167.7	12.3	297.7	567.0
2011.2	10.3	222.3	409.0	2.3	87.3	202.7	12.6	309.7	611.7
2011.3	11.6	229.0	423.0	3.1	91.3	203.0	14.7	320.3	626.0
2011.4	12.6	244.7	448.7	5.0	113.7	242.7	17.6	358.3	691.3
2012.1	12.3	257.7	474.7	5.9	132.0	271.3	18.1	389.7	746.0
2012.2	12.6	261.0	494.7	5.0	142.7	285.3	17.6	403.7	780.0
2012.3	13.4	282.0	533.0	4.5	162.0	329.3	17.9	444.0	862.3
2012.4	14.9	308.3	576.0	4.7	171.0	352.0	19.6	479.3	928.0
2013.1	15.1	316.7	595.7	4.2	145.3	323.3	19.3	462.0	919.0
2013.2	16.3	332.0	619.7	8.8	162.3	349.7	25.1	494.3	969.3
2013.3	16.7	326.7	617.0	6.8	134.3	334.3	23.5	461.0	951.3
2013.4	16.6	329.3	624.0	5.0	177.7	391.7	21.5	507.0	1,015.7
2014.1	15.7	321.7	595.3	10.4	174.3	390.0	26.1	496.0	985.3
Change from previous quarter	-5.2%	-2.3%	-4.6%	109.0%	-1.9%	-0.4%	21.1%	-2.2%	-3.0%
Change from previous year	3.7%	1.6%	-0.1%	148.4%	20.0%	20.6%	35.0%	7.4%	7.2%

Source: Census Bureau

Real Estate Transactions and Mortgages

Taxes collected on both real estate transactions and new mortgages declined in the first quarter, reflecting a slowdown in construction and purchasing activity. Mortgage tax collections plunged 10.1% from the fourth quarter due to higher mortgage rates and a declining number of refinancings (Figure 3) and are down 26.5% over the year.

Real estate transfer tax collections also dropped during the first quarter but not nearly as much (Figure 4). Transfer tax collections fell 2.9% from the fourth quarter but still are up 12.8% over the year.

Figure 3. Mortgage tax collections (in millions, seasonally adjusted annual rate)

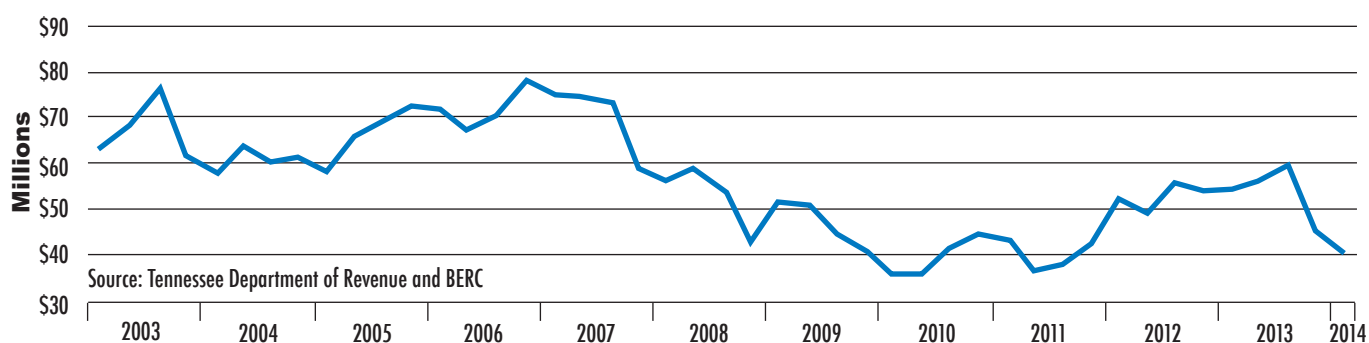
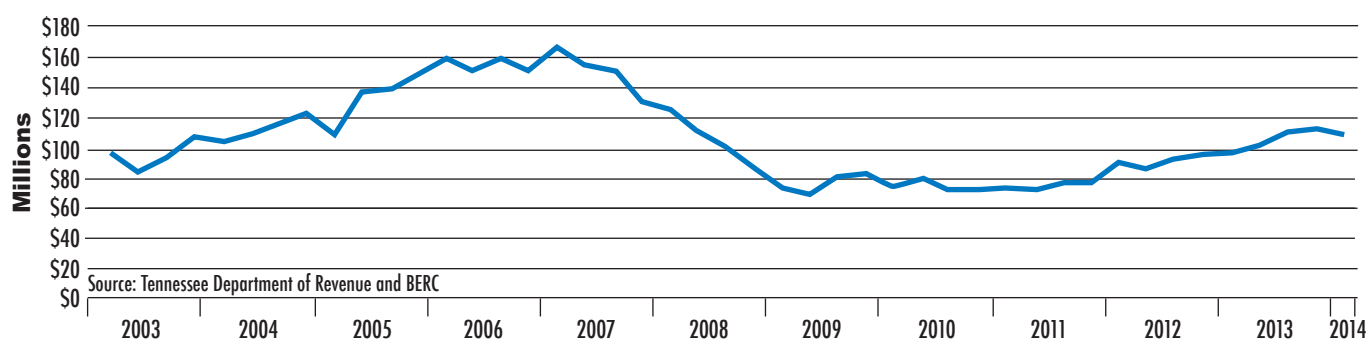


Figure 4. Real estate transfer tax collections (in millions, seasonally adjusted annual rate)



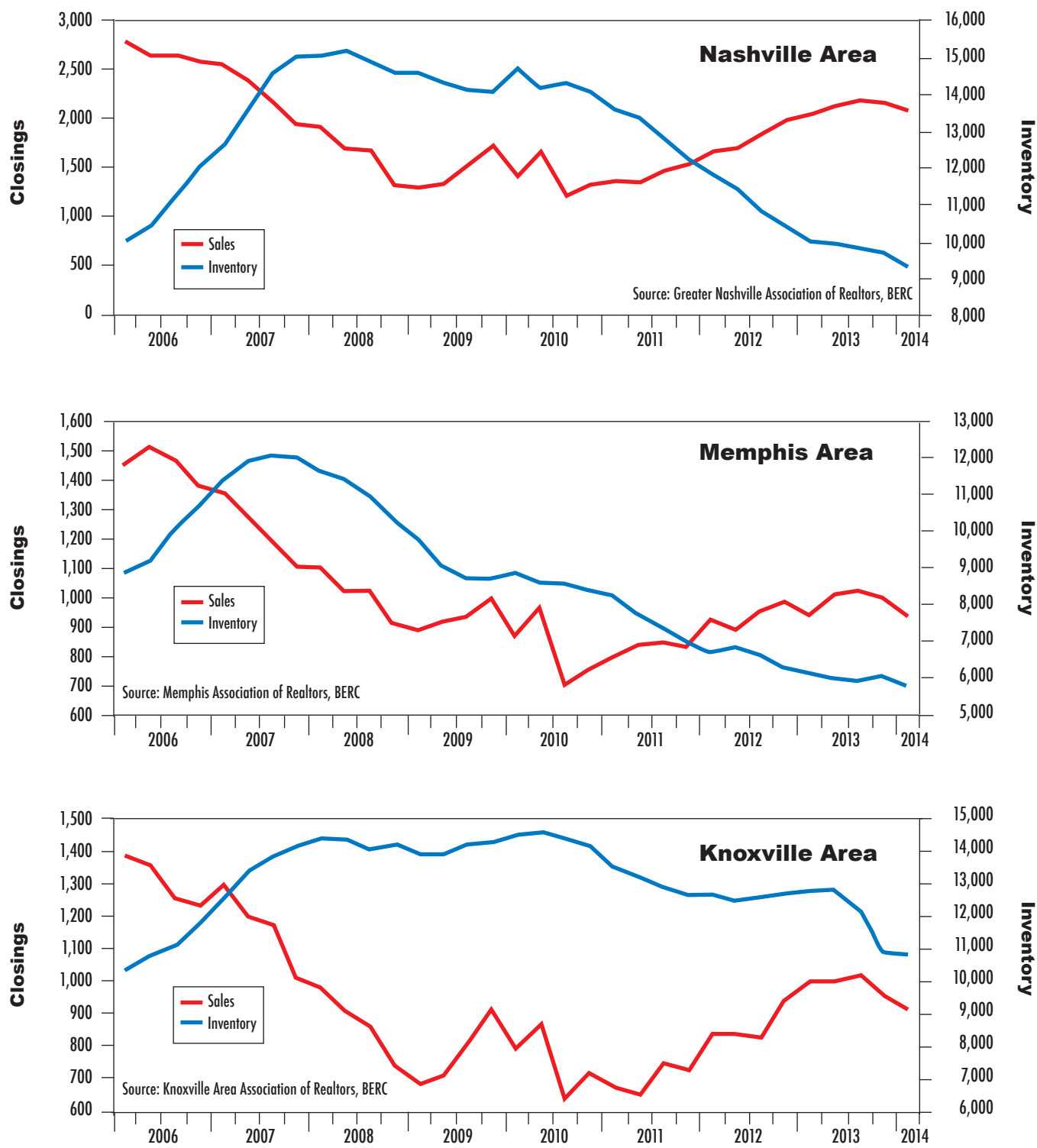
Home Sales

Home sales fell in all three metro areas tracked by this report (Figure 5). Nashville sales are 3.4% lower from the fourth quarter after seasonal adjustments, with a 6.1% decline for the Memphis area and a 5.4% drop for Knoxville. The first quarter represents the second consecutive decline for all three areas and the sharpest drop in sales activity

since the beginning of the real estate recovery in 2010.

Although sales swung lower, inventories of unsold homes did not increase. In fact, the drop in sales appears to have caused some homeowners to keep their homes off the market, as inventories declined in all three areas.

Figure 5. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)



Home Prices

Housing prices were mixed during the first quarter in Tennessee, with prices gaining momentum in the Nashville MSA but weakening in several other metropolitan areas (Table 3 and Figure 6). Statewide, prices are 2.5% higher over the year, according to the All Transactions Home Price Index published by the Federal Home Finance Agency. The Nashville MSA, with a 5.7% gain, is the only area in Tennessee to show price growth faster than the U.S. average of 4.8%.

The housing slowdown caused price gains to slow in Clarksville, Jackson, Kingsport-Bristol, and Memphis. Prices declined more rapidly in Cleveland, Johnson City, and Morristown. Knoxville held steady with at 1.5% gain over the year, while Chattanooga and Nashville were the only areas to experience accelerating home prices.

Table 3. % Change in Housing Prices Year to Year

Area	2012.1-2013.1	2012.2-2013.2	2012.3-2013.3	2012.4-2013.4
Chattanooga MSA	1.2%	2.0%	1.3%	1.5%
Clarksville MSA	-1.3%	-0.3%	0.3%	0.0%
Cleveland MSA	0.6%	1.4%	-1.4%	-2.6%
Jackson MSA	2.5%	0.5%	-2.6%	-1.7%
Johnson City MSA	-0.1%	1.1%	-0.2%	-3.6%
Kingsport-Bristol MSA	1.8%	4.0%	1.3%	0.5%
Knoxville MSA	0.5%	1.4%	1.5%	1.5%
Memphis MSA	0.2%	1.8%	1.1%	0.5%
Morristown MSA	-0.8%	1.1%	-1.4%	-1.9%
Nashville MSA	2.6%	3.8%	4.4%	5.7%
Tennessee	1.1%	2.2%	2.1%	2.5%
Tennessee non-metro	-0.1%	0.8%	0.7%	1.3%
United States	2.3%	4.3%	4.7%	4.8%

Source: FHFA All Transactions Index.

Mortgage Delinquencies and Foreclosures

The recent slowdown in housing construction and home sales has had little impact on delinquencies and foreclosures as indicated in Figure 7. The percent of Tennessee mortgages past due fell to 8.22% in the first quarter from 8.45% in the previous quarter, continuing an improving trend dating back to 2010. A falling delinquency rate indicates households are increasingly able to keep

current on mortgage payments.

By contrast, the number of new foreclosures increased somewhat. Measured as a percent of all mortgages, foreclosure starts rose slightly, from 0.57% to 0.59% in the first quarter. The trend for foreclosure starts continues to be favorable, however, since peaking in 2011 at 1.0%.

Figure 7. Tennessee mortgages past due and foreclosure starts (percent of mortgages in place)

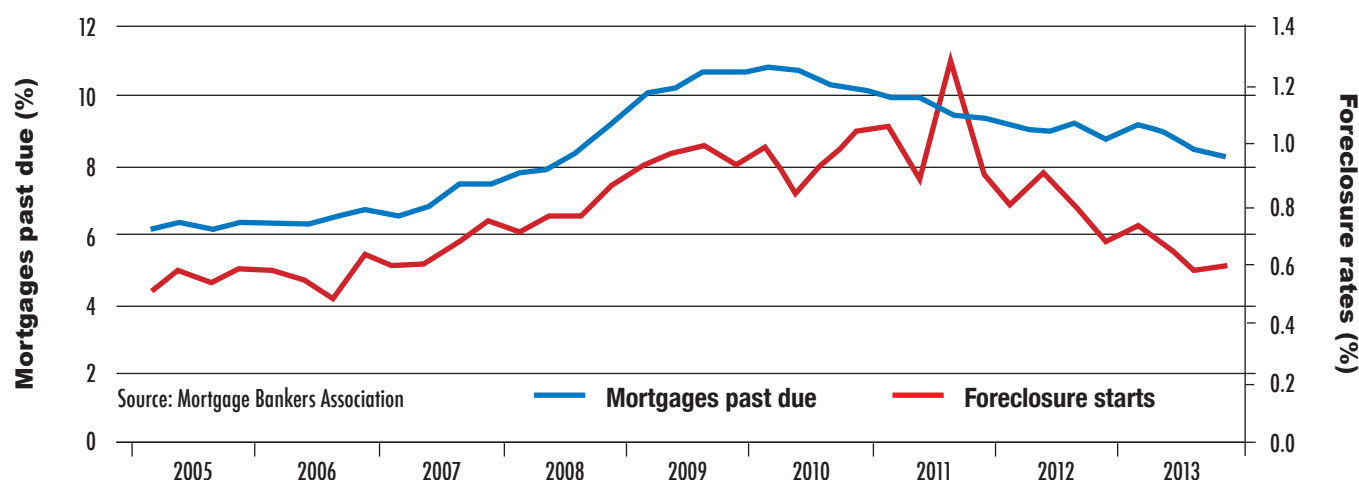
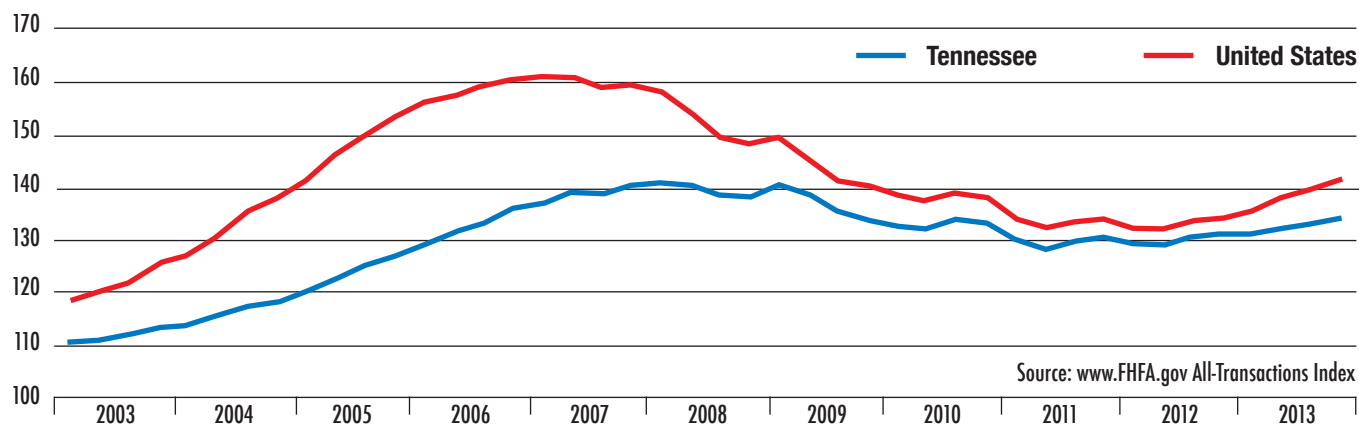


Figure 6. Tennessee FHFA house price index (2000 = 100.0)



Conclusion

Slowing nonfarm employment growth, higher mortgage rates, poor weather, and higher home prices combined to rein in housing market activity during the first quarter. Single-family construction activity declined, continuing a trend of lower activity that began last fall. Home sales dropped for a second quarter, and real estate-related tax collections declined. Rising home prices seem to hurt buyers more than help sellers, as jobs and incomes are not growing fast enough to offset the effects of higher mortgage rates and higher home prices on the monthly payment for a new home.

Single-family construction declined as multi-family construction roared ahead.

As for positives, multi-family construction roared ahead, in tandem with the national trend. The unemployment rate dropped significantly, and households are in no worse shape in terms of affording the mortgages currently in place, as mortgages past due fell again and foreclosures were little changed from the previous quarter. ■

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